

**ADVANCE GOLD CORP.
CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian dollars)

For the year ended May 31, 2012



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Advance Gold Corp.:

We have audited the accompanying consolidated financial statements of Advance Gold Corp. which comprise the consolidated statements of financial position as at May 31, 2012, May 31, 2011 and June 1, 2010, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years ended May 31, 2012 and May 31, 2011 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence that we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Advance Gold Corp. as at May 31, 2012, May 31, 2011 and June 1, 2010, and its financial performance and its cash flows for the years ended May 31, 2012 and May 31, 2011 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements which describe certain conditions that indicate the existence of a material uncertainty that may give rise to significant doubt about the entity's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS

Vancouver, Canada
September 27, 2012

ADVANCE GOLD CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)

| | May 31, 2012 | May 31, 2011 (Notes 14 and 15) | June 1, 2010 (Note 15) |
|---|-------------------|---|------------------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash | \$ 215,976 | \$ 13,288 | \$ 27,298 |
| Investment in equity securities | - | - | 12,500 |
| Accounts receivable (Note 6) | 3,810 | 10,252 | 21,866 |
| Prepaid expenses | 3,467 | 3,467 | 2,769 |
| Total current assets | 223,253 | 27,007 | 64,433 |
| Equipment | 89 | 111 | 138 |
| Exploration and evaluation assets (Statement) (Note 7) | 505,208 | 507,523 | 2,362,561 |
| Total assets | \$ 728,550 | \$ 534,641 | \$ 2,427,132 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade payables and accruals (Notes 7, 8 and 10) | \$ 82,796 | \$ 120,854 | \$ 68,831 |
| Loan payable (Note 10) | - | - | 10,000 |
| Total liabilities | 82,796 | 120,854 | 78,831 |
| EQUITY | | | |
| Share capital (Note 9) | 4,675,591 | 4,305,469 | 4,205,704 |
| Share subscription (Note 9) | 50,000 | - | - |
| Reserves (Note 9) | 816,762 | 662,294 | 652,086 |
| Deficit | (4,896,599) | (4,553,976) | (2,509,489) |
| Total equity | 645,754 | 413,787 | 2,348,301 |
| Total liabilities and equity | \$ 728,550 | \$ 534,641 | \$ 2,427,132 |

Nature and Continuation of Operations (Note 1)

Commitments (Note 11)

Subsequent Events (Note 16)

The accompanying notes are an integral part of these consolidated financial statements

ADVANCE GOLD CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Expressed in Canadian dollars)
Years ended May 31

| | 2012 | 2011 (Notes 14 and 15) |
|---|---------------------|----------------------------------|
| Operating expenses | | |
| Advertising and promotion | \$ 5,974 | \$ 1,061 |
| Amortization of equipment | 22 | 27 |
| Corporate development | 2,250 | 9,000 |
| Consulting fees (Note 10) | 2,000 | 5,280 |
| Dues, conferences and subscriptions | 2,757 | 906 |
| Foreign exchange loss (gain) | (156) | 356 |
| Impairment of exploration and evaluation assets (Note 7) | 144,249 | 1,876,770 |
| Interest, bank charges | 2,059 | 1,362 |
| Management fees (Note 10) | 63,000 | 57,000 |
| Office, clerical and sundry | 3,084 | 2,087 |
| Professional fees | 36,677 | 43,557 |
| Property investigation | 8,330 | 8,423 |
| Rent and telephone (Note 10) | 8,311 | 10,170 |
| Stock based compensation (Note 9) | 6,172 | - |
| Transfer agent and filing fees | 16,031 | 17,781 |
| Wages and benefits (Note 10) | 41,863 | 15,557 |
| Operating loss | (342,623) | (2,049,337) |
| Other item | | |
| Gain on sale of investment | - | 4,850 |
| Net loss for the year | (342,623) | (2,044,487) |
| Other comprehensive loss | | |
| Reclassification adjustment on sale of available for sale investment | - | (5,000) |
| Comprehensive loss for the year | \$ (342,623) | \$ (2,049,487) |
| Loss per share – basic and diluted | \$ (0.01) | \$ (0.09) |
| Weighted average number of common shares outstanding – basic and diluted | 29,047,017 | 23,847,909 |

The accompanying notes are an integral part of these consolidated financial statements.

ADVANCE GOLD CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in Canadian dollars)
Years ended May 31

| | Number of shares | Share capital | Share subscription | Stock option reserve | Warrant reserve | Investment revaluation reserve | Deficit | Total |
|--|---------------------|---------------|-----------------------|-------------------------|--------------------|--------------------------------------|----------------|--------------|
| Balance at June 1, 2010 (Note 15) | 22,116,402 | \$ 4,205,704 | \$ - | \$ 332,777 | \$ 314,309 | \$ 5,000 | \$ (2,509,489) | \$ 2,348,301 |
| Shares issued for cash, net of share issuance costs | 2,000,000 | 114,973 | - | - | - | - | - | 114,973 |
| Allocated to warrants on the issue of shares for cash | - | (15,208) | - | - | 15,208 | - | - | - |
| Net loss | - | - | - | - | - | - | (2,044,487) | (2,044,487) |
| Other comprehensive loss | - | - | - | - | - | (5,000) | - | (5,000) |
| Balance at May 31, 2011 (Note 15) | 24,116,402 | \$ 4,305,469 | \$ - | \$ 332,777 | \$ 329,517 | \$ - | \$ (4,553,976) | \$ 413,787 |
| Shares issued for cash, net of share issuance costs | 10,190,294 | 498,418 | - | - | - | - | - | 498,418 |
| Share subscription received | - | - | 50,000 | - | - | - | - | 50,000 |
| Allocated to warrants on the issue of shares for cash | - | (148,296) | - | - | 148,296 | - | - | - |
| Shares issued for exploration and evaluation asset | 500,000 | 20,000 | - | - | - | - | - | 20,000 |
| Stock-based compensation | - | - | - | 6,172 | - | - | - | 6,172 |
| Net loss | - | - | - | - | - | - | (342,623) | (342,623) |
| Balance at May 31, 2012 | 34,806,696 | \$ 4,675,591 | \$ 50,000 | \$ 338,949 | \$ 477,813 | \$ - | \$ (4,896,599) | \$ 645,754 |

The accompanying notes are an integral part of these consolidated financial statements

ADVANCE GOLD CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian dollars)
Years ended May 31

| | 2012 | 2011 |
|--|-------------------|------------------|
| Cash Provided By (Used For): | | |
| Operating Activities | | |
| Net loss | \$ (342,623) | \$ (2,044,487) |
| Items not effecting cash: | | |
| Amortization | 22 | 27 |
| Gain on sale of investment | - | (4,850) |
| Impairment of exploration and evaluation assets | 144,249 | 1,876,770 |
| Stock-based compensation | 6,172 | - |
| Change in non-cash working capital items: | | |
| Accounts receivable | 6,442 | 11,615 |
| Prepaid expenses | - | (699) |
| Trade payables and accruals | (78,058) | 52,023 |
| Cash used for operating activities | (263,796) | (109,601) |
| Investing Activities | | |
| Exploration and evaluation expenditures, net of recoveries of \$2,314 (2011 - \$Nil) | (81,934) | (21,732) |
| Sale of investment | - | 12,350 |
| Cash used for investing activities | (81,934) | (9,382) |
| Financing Activities | | |
| Repayment of loan payable | - | (10,000) |
| Shares issued for cash | 509,515 | 120,000 |
| Share subscriptions received | 50,000 | - |
| Share issuance costs | (11,097) | (5,027) |
| Cash provided by financing activities | 548,418 | 104,973 |
| Increase (decrease) in cash | 202,688 | (14,010) |
| Cash, beginning | 13,288 | 27,298 |
| Cash, ending | \$ 215,976 | \$ 13,288 |

Supplemental disclosure of non-cash investing and financing activities:

| | | |
|--|-----------|------|
| Exploration and evaluation expenditures included in trade payables and accrued liabilities | \$ 40,000 | \$ - |
| Shares issued for acquisition of exploration and evaluation asset | \$ 20,000 | \$ - |

The accompanying notes are an integral part of these consolidated financial statements

ADVANCE GOLD CORP.
CONSOLIDATED STATEMENTS OF EXPLORATION AND EVALUATION ASSETS
(Expressed in Canadian dollars)

| | May 31, 2011 | Acquisition costs | Exploration and evaluation expenditures | Impairment (Note 7) | May 31, 2012 |
|------------------------------|---------------------|--------------------------|--|----------------------------|---------------------|
| Kakamega Property, Kenya | \$ 507,522 | \$ - | \$ (2,314) | \$ - | \$ 505,208 |
| Ngira Migori Property, Kenya | 1 | - | - | (1) | - |
| Singida Property, Tanzania | - | 70,000 | 74,248 | (144,248) | - |
| | <u>\$ 507,523</u> | <u>\$ 70,000</u> | <u>\$ 71,934</u> | <u>\$ (144,249)</u> | <u>\$ 505,208</u> |

| | June 1, 2010 | Acquisition costs | Exploration and evaluation expenditures | Impairment (Note 7) | May 31, 2011 |
|------------------------------|---------------------|--------------------------|--|----------------------------|---------------------|
| Kakamega Property, Kenya | \$ 499,196 | \$ - | \$ 8,326 | \$ - | \$ 507,522 |
| Ngira Migori Property, Kenya | 24,487 | - | - | (24,486) | 1 |
| Nyakagwe Property, Tanzania | 1,831,599 | 2,402 | 11,004 | (1,845,005) | - |
| Sotik Property, Kenya | 7,279 | - | - | (7,279) | - |
| | <u>\$ 2,362,561</u> | <u>\$ 2,402</u> | <u>\$ 19,330</u> | <u>\$ (1,876,770)</u> | <u>\$ 507,523</u> |

The accompanying notes are an integral part of these consolidated financial statements.

ADVANCE GOLD CORP.

CONSOLIDATED STATEMENTS OF EXPLORATION AND EVALUATION EXPENDITURES
(Expressed in Canadian dollars)

Years ended May 31

| | 2012 | 2011 |
|------------------------------|-------------|-------------|
| Nyakagwe Property | | |
| Opening balance | \$ - | \$ 672,250 |
| Camp | - | 854 |
| Communication | - | 367 |
| Travel | - | 289 |
| Wages and consultants | - | 9,494 |
| Impairment (Note 7) | - | (683,254) |
| Ending balance | - | - |
| Kakamega Property | | |
| Opening balance | 54,294 | 45,968 |
| Administration | - | - |
| Camp | (2,314) | 7,670 |
| Communication | - | 367 |
| Travel | - | 289 |
| Ending balance | 51,980 | 54,294 |
| Ngira Migori Property | | |
| Opening balance | - | 18,483 |
| Impairment (Note 7) | - | (18,483) |
| Ending balance | - | - |
| Sotik Property | | |
| Opening balance | - | 7,274 |
| Impairment (Note 7) | - | (7,274) |
| Ending balance | - | - |
| Singida Property | | |
| Opening balance | - | - |
| Administration | 172 | - |
| Camp | 7,545 | - |
| Consultant | 9,746 | - |
| Geological | 29,766 | - |
| Field supplies | 409 | - |
| Geochemical | 8,286 | - |
| Surveys and mapping | 1,913 | - |
| Technical/field staff | 7,093 | - |
| Transportation | 102 | - |
| Vehicle | 9,072 | - |
| Travel | 144 | - |
| Impairment (Note 7) | (74,248) | - |
| Ending balance | - | - |
| | \$ 51,980 | \$ 54,294 |

The accompanying notes are an integral part of these consolidated financial statements.

ADVANCE GOLD CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
May 31, 2012

1. Nature and Continuance of Operations

Advance Gold Corp. (the “Company”) was incorporated in the Province of British Columbia on September 28, 2004 as Liberian Gold Corporation and changed its name to Africa West Minerals Corp. (“AWMC (Old)”) on June 28, 2006. The Company changed its name to Advance Gold Corp. on May 3, 2010. The Company’s shares are listed on the TSX-Venture Exchange (the “Exchange”). The Company is an exploration stage company engaged in the exploration and evaluation of mineral property interests. The Company’s registered and head office is located at #1100 – 235 First Avenue, Kamloops, British Columbia V2C 3J4.

These consolidated financial statements have been prepared on the going concerns basis, which contemplates that the Company will continue operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The Company has incurred significant losses from inception and as at May 31, 2012 the Company had a deficit of \$4,896,599. The ability of the Company to continue as going concern is in doubt and is dependent upon the continued support from its directors and its ability to continue to raise sufficient financing. Management is seeking equity financing and joint venture opportunities, the outcome of which cannot be predicted at this time. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. These financial statements do not reflect the adjustments or reclassifications which would be necessary if the Company were unable to continue.

2. Significant Accounting Policies

Statement of Compliance

The consolidated financial statements are prepared using accounting policies in compliance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and the interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”), having previously been prepared in accordance with Canadian Generally Accepted Accounting Principles (“Canadian GAAP”). The disclosures concerning the transition from Canadian GAAP to IFRS are included in Note 15.

These consolidated financial statements for the year ended May 31, 2012 were authorized for issuance by the Board of Directors of the Company on September 27, 2012.

Basis of Presentation

These consolidated financial statements have been prepared on a historical cost basis, with the exception of certain financial instruments measured at fair value.

Consolidation

The consolidated financial statements include the accounts of the Company and its controlled entities. Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

ADVANCE GOLD CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
May 31, 2012

Financial Instruments

The Company recognizes financial assets and financial liabilities when the Company becomes a party to a contract. Financial assets and financial liabilities, with the exception of financial assets classified as at fair value through profit or loss, are measured at fair value plus transaction costs on initial recognition. Financial assets at fair value through profit or loss are measured at fair value on initial recognition and transaction costs are expensed when incurred.

Measurement in subsequent periods depends on the classification of the financial instrument:

i) Financial assets at fair value through profit or loss (FVTPL)

Financial assets are classified as FVTPL when acquired principally for the purpose of trading, if so designated by management (fair value option), or if they are derivative assets. Financial assets classified as FVTPL are measured at fair value, with changes recognized in the statement of comprehensive loss.

The Company's financial assets classified as FVTPL include cash. The Company does not currently hold any derivative instruments.

ii) Held to maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost.

The Company's has no financial assets classified as held to maturity investments.

iii) Available for sale investments

Available for sale financial assets are non-derivative financial assets that are designated as available for sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held to maturity investments and are subsequently measured at fair value. Unrealized gains and losses are recognized in other comprehensive loss, except for impairment losses and foreign exchange gains and losses on monetary financial assets.

The Company's available for sale investments are comprised in investments in equity securities.

iv) Loans and receivables

Loans and receivables are non-derivative financial assets that have fixed or determinable payments and are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method.

Amounts receivable are classified as loans and receivables.

ADVANCE GOLD CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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May 31, 2012

v) *Other financial liabilities*

Other financial liabilities are financial liabilities that are not classified as FVTPL. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

Trade payables and loan payable are classified as other financial liabilities.

Exploration and Evaluation Expenditures

Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Exploration and evaluation expenditures are capitalized. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in profit or loss.

Government tax credits received are recorded as a reduction to the cumulative costs incurred and capitalized on the related property.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

Farms outs

The Company does not record any expenditure made by the farmee on its account. It also does not recognize any gain or loss on its exploration and evaluation farm out arrangements but reallocates any costs previously capitalized in relation to the whole interest as relating to the partial interest retained and any consideration received directly from the farmee is credited against costs previously capitalized.

Equipment

Equipment is recorded at cost less accumulated amortization. The Company provides for amortization on the following basis:

Furniture and equipment - 20% declining balance method

In the year of acquisition, one half of the above rates are applied, and in year of disposal no amortization is claimed.

ADVANCE GOLD CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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May 31, 2012

Impairment of Long-Lived Assets

At each reporting period end date the carrying amounts of the Company's assets, including exploration and evaluation assets are reviewed to determine whether there is an indication that those assets are impaired. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted at a rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the statement of comprehensive loss.

Decommissioning Liabilities

The Company is required to recognize a liability when a legal or constructive obligation exists to dismantle, remove or restore its assets, including an obligation to rehabilitate environmental damage on its exploration and evaluation assets. As of May 31, 2012 and 2011, the Company has not incurred any such obligations.

Translation of Foreign Currency

The Company's functional and presentation currency is the Canadian dollar. Functional currency is also determined for each of the Company's subsidiaries, and items included in the financial statements of the subsidiary are measured using that functional currency. The Canadian dollar is the functional currency of all the Company's subsidiaries.

Transactions in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Monetary assets and liabilities not denominated in the functional currency are translated at the period end rates.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the statement of comprehensive loss in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income in the statement of comprehensive income to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

Income Taxes

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Deferred taxes are determined using the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that

ADVANCE GOLD CORP.
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will be in effect when the differences are expected to reverse. Deferred income tax assets are recognized to the extent that realization is considered probable.

Stock-Based Compensation

Stock options granted to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Stock options granted to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the stock option reserve. The fair value of options is determined using a Black-Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Loss Per Share

Basic loss per share is calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the loss attributable to common shareholders equals the reported loss attributable to owners of the Company. Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

Critical Accounting Estimates and Judgements

The preparation of the financial statements using accounting policies consistent with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. The preparation of the consolidated financial statements also requires management to exercise judgment in the process of applying the accounting policies. Changes in estimates, assumptions and judgements can have a significant impact in future accounting periods.

Critical accounting estimates

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively from the period in which the estimates are revised. The following are the key estimate and assumption uncertainties that have a significant risk of resulting in a material adjustment within the next financial year.

i) Impairment of non-financial assets

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. Recoverable amount is the greater of value in use and fair value less costs to sell. Determining the value in use requires the Company to estimate expected future cash flows associated with the assets and a suitable discount rate in order to calculate present value.

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ii) Stock-based compensation

Management is required to make certain estimates when determining the fair value of stock options awards, and the number of awards that are expected to vest. These estimates affect the amount recognized as stock-based compensation in the statement of operations.

iii) Useful life of equipment

Equipment is amortized over the estimated useful life of the assets. Changes in the estimated useful lives could significantly increase or decrease the amount of amortization recorded during the year and the carrying value of equipment.

Critical judgements used in applying accounting policies

In the preparation of these financial statements management has made judgments, aside from those that involve estimates, in the process of applying the accounting policies. These judgments can have an effect on the amounts recognized in the financial statements.

i) Exploration and Evaluation Assets

Management is required to apply judgment in determining whether technical feasibility and commercial viability can be demonstrated for the exploration and evaluation assets. Once technical feasibility and commercial viability of a property can be demonstrated, it is reclassified from exploration and evaluation assets and subject to different accounting treatment. As at May 31, 2012, none of the Company's exploration and evaluation assets has demonstrated technical feasibility and commercial viability.

ii) Decommissioning liabilities

Management is required to apply judgment in determining whether any legal or constructive obligation exist to dismantle, remove or restore its assets, including any obligation to rehabilitate environmental damage on its mineral properties. As of May 31, 2012 and 2011, the Company has not recognized any such obligations.

iii) Income taxes

The measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgments in the interpretation and application of the relevant tax laws. The actual amount of income taxes only become final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the financial statements.

3. New accounting pronouncements

Certain new accounting standards and interpretations have been published that are not mandatory for the May 31, 2012 reporting period. Each of the new standards is effective for annual periods beginning on or after January 1, 2013 (or as noted) with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

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The following is a brief summary of the new standards:

IFRS 9 – Financial Instruments

IFRS 9 addresses classification and measurement of financial assets and is effective for annual periods beginning on or after January 1, 2015. IFRS 9 replaces the multiple category and measurement models in International Accounting Standards (“IAS”) 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit and loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit and loss or at fair value through other comprehensive income.

IFRS 10 – Consolidation

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces Standing Interpretations Committee (“SIC”) 12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.

IFRS 11 - Joint Arrangements

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities— Non-monetary Contributions by Venturers.

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity’s interests in other entities.

IFRS 13 - Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

IAS 1 - Amendments to IAS 1 Presentation of Financial Statements

These amendments stipulate the presentation of net earnings and other comprehensive income and also require the Company to group items with other comprehensive income based on whether the items may be subsequently reclassified to profit or loss. Amendments to IAS 1 are effective for fiscal years beginning on or after July 31, 2012 with retrospective application and early adoption permitted.

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4. Management of Capital

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to pursue the development of its exploration and evaluation assets and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

In the management of capital, the Company includes the components of equity as well as its cash.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of its cash.

In order to maximize ongoing development efforts, the Company does not pay dividends.

The Company's investment policy is to invest its cash in highly liquid investments which are readily convertible into cash with maturities of three months or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations.

The Company expects that its current capital resources will not be sufficient to carry out its exploration plans and operations through the next twelve months.

There were no changes in the Company's approach to capital management during the year.

The Company is not subject to any externally imposed capital requirements.

5. Financial Instruments

Fair Value

The Company's financial assets and liabilities measured at amortized cost approximate their fair values due to the short term to maturity.

Fair value estimates are made at the reporting period end date, based on relevant market information. Estimated fair value amounts are designed to approximate amounts at which financial instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act.

The Company uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value of financial instruments. The classifications are as follows: the use of quoted market prices for identical assets or liabilities (Level 1), internal models using observable market information as inputs (Level 2) and internal models without observable market information as inputs (Level 3). The Company had no Level 2 or Level 3 financial instruments at May 31, 2012 and there have been no transfers between levels.

The following is an analysis of the Company's financial assets measured at fair value as at May 31, 2012, May 31, 2011 and June 1, 2010:

| | As at May 31, 2012 | | |
|------|---------------------------|----------------|----------------|
| | Level 1 | Level 2 | Level 3 |
| Cash | \$ 215,976 | \$ - | \$ - |

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| As at May 31, 2011 | | | |
|---------------------------------|----------------|----------------|----------------|
| | Level 1 | Level 2 | Level 3 |
| Cash | \$ 13,288 | \$ - | \$ - |
| As at June 1, 2010 | | | |
| | Level 1 | Level 2 | Level 3 |
| Cash | \$ 27,298 | \$ - | \$ - |
| Investment in equity securities | 12,500 | - | - |
| | \$ 39,798 | \$ - | \$ - |

Financial Risk Management

The Company's financial instruments potentially expose it to a variety of risks, including credit risk, foreign exchange risk (currency), liquidity and interest rate risk.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk consist of cash and receivables. The Company deposits the majority of its cash with high credit quality financial institutions in Canada reducing the credit risk. Receivables consist of refundable tax credits and therefore the credit risk is minimal.

Currency risk

Currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. Certain assets and liabilities of the Company's are denominated in US dollars, and are therefore subject to fluctuation against the Canadian dollar.

The Canadian dollar equivalent of financial instruments denominated in US dollars as at May 31, 2012, May 31, 2011 and June 1, 2010 is as follows:

| | May 31, 2012 | May 31, 2011 | June 1, 2010 |
|----------------|-------------------------|-------------------------|-------------------------|
| Cash | \$ 14,300 | \$ 8,516 | \$ 8,165 |
| Trade payables | (14,606) | - | - |
| | \$ (306) | \$ 8,516 | \$ 8,165 |

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Current financial assets and financial liabilities are generally not exposed to interest rate risk because of their short-term nature and maturity.

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Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company manages liquidity by maintaining adequate cash balances.

The Company's expected source of cash flow in the upcoming year is anticipated to be through equity financing and future loan facilities, and potential joint venture agreements.

Cash on hand at May 31, 2012 are not sufficient to fund the Company's operational needs for the next 12 months. Therefore, the Company will need funding through equity or debt financing, entering into joint venture agreements, or a combination thereof.

6. Accounts receivable

| | May 31, 2012 | May 31, 2011 | June 1, 2010 |
|-----------------------------------|-----------------|------------------|------------------|
| HST receivable | \$ 3,810 | \$ 7,252 | \$ 1,866 |
| Exploration advance | - | 3,000 | - |
| Option termination fee receivable | - | - | 20,000 |
| | <u>\$ 3,810</u> | <u>\$ 10,252</u> | <u>\$ 21,866</u> |

7. Exploration and Evaluation Assets

(a) Kakamega Properties, Kenya:

The Company has applied for and was granted an Exclusive Prospecting License ("EPL") to cover the former Rosterman Mine and surrounding areas in Kenya. In addition, the Company has two other licenses in the immediate area. The licenses expire on October 1, 2012, and are in the process of being renewed.

In order to maintain the licences the Company is required to incur a minimum of Kenya Shillings ("KES") 5,000,000 (Canadian \$71,350) in exploration expenditures per year for each license. The Company is also obligated to pay KES 10,000 (Canadian \$143) for all areas operated under pilot mining.

On April 20, 2011, the Company entered into an option and joint venture agreement with Aviva Corporation Ltd. ("Aviva"). Under the terms of the agreement, Aviva has the right to earn at least a 75% interest in the Kakamega Properties. The agreement is subject to due diligence and the Company obtaining approval of the agreement from the Commissioner of Mines and Geology of Kenya. The agreement became effective on July 21, 2011, when these two conditions had been fulfilled (the "Effective Date").

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To earn a 51% interest in the properties, Aviva must:

- Incur a minimum of US\$100,000 in exploration expenditures on the properties within 12 months of the effective date (completed subsequent to May 31, 2012);
- Make a US\$100,000 cash payment to the Company within 15 days of date that the initial US\$100,000 exploration expenditures are ratified (received subsequent to May 31, 2012); and
- Incur a further US\$500,000 in exploration expenditures on the properties within 24 months of date that the initial US\$100,000 exploration expenditures are ratified.

Once Aviva has exercised its option to earn a 51% interest in the properties, a joint venture will be formed which will hold the licenses. All revenues, costs, assets and liabilities arising from the joint venture will be shared by the Company and Aviva in accordance with their percentage interests in the properties.

To earn an additional 24% interest in the properties, Aviva must:

- Incur an additional US\$1,000,000 in exploration expenditures on the properties within 24 months of earning a 51% interest.

Once Aviva has obtained a 75% interest, the Company may elect to dilute its interest to 10% after which Aviva may convert the Company's interest in the property to a 3% net smelter royalty.

On July 23, 2012, it was announced that African Barrick Gold plc, a subsidiary of Barrick Gold Corporation, would be purchasing all of Aviva's Kenyan gold and base metals assets which includes the option and joint venture agreement with the Company. The purchase requires the approval of Aviva's shareholders and the Kenyan Competition authority.

(b) Ngira Migori Property, Kenya:

Pursuant to an agreement dated September 11, 2007 and amended and restated on August 6, 2009, the Company has an option to acquire up to an 85% interest in the Ngira Migori Property (the "Option"), which encompasses 320 km² area in the Migori area of Kenya.

In order to maintain the Option in force and to exercise the Option, the Company shall:

- Incur a minimum of \$50,000 in exploration expenditures by September 11, 2008 in order to obtain a 25% interest in the property;
- Incur an additional \$50,000 in exploration expenditures by September 11, 2009 in order to obtain a further 25% interest in the property;
- Incur an additional \$50,000 in exploration expenditures by September 11, 2010 in order to obtain a further 25% interest in the property; and
- Notify the optionor of its intention to install a production plan on the property and to complete such installation within three years of providing such notice in order to obtain a further 10% interest in the property.

The Company entered into an option agreement dated August 13, 2009 with Red Rock Resources PLC ("Red Rock") for Red Rock to acquire a 70% interest in the Ngira Migori Property. Red Rock paid the Company US\$20,000 (Canadian \$22,144) upon signing the agreement and was required to incur minimum expenditures of US\$180,000 and drill 1,200 meters before August 13, 2011 and a minimum of 2,400 meters before August 13, 2012. Red Rock was also required to maintain the property in good standing during the option period (subsequent to May 31, 2012, option was terminated).

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During the year ended May 31, 2011, the Company wrote-down the carrying value of this property to \$1 and at May 31, 2012, the Company wrote-off this property.

(c) Nyakagwe Property, Tanzania:

The Company acquired, through a contract with Thamani Mines Ltd. ("TML"), 46 Primary Mining Licenses ("PML") from a group of local land owners in the Victoria Gold Fields District. TML also obtained one prospecting license on the Company's behalf in November 2009. The prospecting license and the group of 46 PML's form 3 blocks of contiguous claims, now named the Nyakagwe Project. Under the agreement with TML, TML would explore the property under the Company's management and funding.

The Company wrote-off this property at May 31, 2011.

(d) Sotik Property, Kenya:

The Company applied for and was granted a mining exploration license for the Sotik property, which is located in southern Kenya.

The Company wrote-off this property at May 31, 2011.

(e) Singida Property, Tanzania:

On January 10, 2012, the Company entered into a mining option agreement with Azania Resources BVI Ltd and its subsidiary, Azania Resources (Tanzania) Ltd (collectively "Anzania"), pursuant to which Azania has granted the Company an option (the "Option") to acquire a 100% interest in PL 6266/2009 (the "Property"), which consists of one claim located in the Singida region of Tanzania.

In consideration of the grant of the Option, the Company will pay Azania \$50,000 (\$10,000 paid and \$40,000 accrued at May 31, 2012) and issue to Azania 500,000 common shares (issued with a fair value of \$20,000). In order to maintain and exercise the option, the Company must (1) by the first anniversary of the approval date issue to Azania an additional 1,000,000 common shares of the Company and incur expenses on the Property as required by the applicable government or regulatory authorities and (2) by the third anniversary of the Approval Date, issue to Azania an additional 1,500,000 common shares of the Company.

The Company has determined that it will not pursue further exploration work on this property and therefore wrote-off the carrying value to \$Nil at May 31, 2012.

8. Trade Payables and Accrued Liabilities

| | May 31, 2012 | May 31, 2011 | June 1, 2010 |
|---------------------|-------------------------|-------------------------|-------------------------|
| Trade payables | \$ 21,008 | \$ 92,354 | \$ 40,331 |
| Accrued liabilities | 61,788 | 28,500 | 28,500 |
| | \$ 82,796 | \$ 120,854 | \$ 68,831 |

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9. Share Capital

(a) Authorized:

Unlimited number of common shares at no par value

Unlimited number of preferred shares at no par value

(b) Escrow Shares:

At May 31, 2012, 686,000 common shares are subject to an escrow agreement in accordance with Exchange policy 5.4. 343,000 of these shares were released from escrow on July 30, 2012, and the remaining 343,000 shares will be released on January 30, 2013.

(c) Share Issuances:

2012 Share Issuances:

On September 19, 2011, the Company closed the first tranche of a non-brokered private placement of 4,250,000 units at a price of \$0.05 per unit for gross proceeds of \$212,500. Each unit is comprised of one common share and one non-transferable share purchase warrant. Each warrant entitles the holder to purchase one additional common share at a price of \$0.10 per share until September 19, 2013, subject to accelerated expiry in certain circumstances. Of the \$212,500 proceeds, \$75,193 was allocated to the warrants, being their estimated issue date fair value. The fair value was determined using the Black-Scholes option pricing model with the following assumptions: an expected life of two year; a volatility of 126.0%; a risk-free interest rate of 0.93%; and an expected dividend yield rate of nil. The Company incurred share issuance costs of \$5,235 in connection with this financing.

On October 25, 2011, the Company closed the second and final tranche which consisted of 2,940,294 units at a price of \$0.05 per unit for gross proceeds of \$147,015. Each unit is comprised of one common share and one non-transferable share purchase warrant. Each warrant entitles the holder to purchase one additional common share at a price of \$0.10 per share until October 25, 2013, subject to accelerated expiry in certain circumstances. Of the \$147,015 proceeds, \$49,155 was allocated to the warrants, being their estimated issue date fair value. The fair value was determined using the Black-Scholes option pricing model with the following assumptions: an expected life of two year; a volatility of 127.37%; a risk-free interest rate of 0.99%; and an expected dividend yield rate of nil. The Company incurred share issuance costs of \$2,767 in connection with this financing.

On February 13, 2012, the Company issued Azania BVI 500,000 common shares with a fair value of \$0.04 per share for a total of \$20,000 for the mining option agreement to acquire a 100% interest in the Singida Property (Note 7).

On May 25, 2012 the Company closed the first tranche of a non-brokered private placement, this first tranche consisting of 3,000,000 units (the "Units") at a per Unit price of \$0.05 for gross proceeds of \$150,000. Each Unit is comprised of one common share of the Company and one-half of one non-transferable share purchase warrant. Each whole warrant entitles the holder to purchase an additional common share at a price of \$0.10 per share until May 25, 2014, subject to accelerated expiry in certain circumstances. Of the \$150,000 proceeds, \$23,948 was allocated to the warrants, being their estimated issue date fair value. The fair value was determined using the Black-Scholes option pricing model with the following assumptions: an expected life of two year; a volatility of 120.1%; a risk-free interest rate of 1.07%; and an expected dividend yield rate of nil. The Company incurred share issue costs of \$3,095 in connection with this financing.

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At May 31, 2012, the Company had received \$50,000 in connection with the second tranche of the private placement which closed on June 13, 2012 (Note 16).

2011 Share Issuances:

On July 19, 2010 the Company closed a non-brokered private placement, consisting of 2,000,000 units at a price of \$0.06 per unit for gross proceeds of \$120,000. Each unit is comprised of one common share of the Company and one-half of one non-transferable share purchase warrant with each whole warrant entitling the holder to purchase an additional common share at a price of \$0.10 per share until July 19, 2011, subject to accelerated expiry in certain circumstances. Of the proceeds, \$15,208 was allocated to the warrants, being their estimated issue date fair value. The fair value was determined using the Black-Scholes option pricing model with the following assumptions: an expected life of one year; a volatility of 122%; a risk-free interest rate of 1.02%; and an expected dividend yield rate of nil.

(d) Stock Options:

The Company has a stock option plan (“the Plan”) whereby the aggregate number of common shares reserved for issuance pursuant to the Plan and any other share compensation arrangement granted or made available by the Company from time to time shall not exceed in aggregate 3,337,580 common shares (the “Option Plan Shares”), which represents 20% of the Company’s common shares issued and outstanding on the date of adoption of the 2008 Plan by the Board of Directors. The number of Option Plan Shares shall be increased or decreased from time to time as required if more or less Option Plan Shares are required to be issued due to any reorganization of the share capital of the Company. The term of any options granted under the Plan will be fixed by the Board of Directors and may not exceed ten years, but so long as the Company remains a “Tier 2” issuer under the policies of the Exchange, options may not exceed a term of five years. The exercise price of options granted under the Plan will be determined by the Board of Directors, provided that it is not less than the lowest price permitted by the Exchange.

Any options granted pursuant to the Plan will terminate within 30 days of the option holder ceasing to act as an Eligible Person pursuant to and as defined in the Plan, unless such cessation is on account of death, disability or termination of employment with cause. If such cessation is on account of disability or death, the options terminate on the first anniversary of such cessation, and if it is on account of termination of employment with cause, the options terminate immediately. The Plan also provides for adjustments to outstanding options in the event of any consolidation, subdivision, conversion or exchange of the Company’s shares.

On March 1, 2012, the Company granted 250,000 stock options. The options have an exercise price of \$0.10 have per share and expire on March 1, 2017. The options vest one quarter on each of June 1, 2012, September 1, 2012, December 1, 2012 and March 1, 2013. The grant date fair value of the options was determined to be \$11,831, with \$6,172 recognized for the year ended May 31, 2012. The fair value was determined using the Black-Scholes option pricing model with the following assumptions: expected life of 5 years; a volatility of 144%; a risk free interest rate of 1.45%; and a dividend yield of 0%.

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A summary of stock option activity for the years ended May 31, 2012 and 2011 is as follows:

| | Number of Options | Weighted Average Exercise Price |
|-----------------------------------|----------------------|--|
| Options outstanding, June 1, 2010 | 1,807,500 | \$ 0.27 |
| Expired/cancelled | (300,000) | \$ 0.23 |
| Options outstanding, May 31, 2011 | 1,507,500 | \$ 0.27 |
| Granted | 250,000 | \$ 0.10 |
| Options outstanding, May 31, 2012 | 1,757,500 | \$ 0.25 |
| Options exercisable, May 31, 2012 | 1,570,000 | \$ 0.27 |

As at May 31, 2012, the following stock options are outstanding:

| Options Outstanding | Options Exercisable | Weighted Average Exercise Price | Grant Date | Expiry Date | Weighted Average Remaining Life (Years) |
|------------------------|------------------------|--|------------------|------------------|---|
| 1,295,000 | 1,295,000 | 0.30 | June 9, 2008 | June 9, 2013 | 1.02 |
| 12,500 | 12,500 | 0.30 | October 1, 2008 | October 1, 2013 | 1.34 |
| 200,000 | 200,000 | 0.10 | January 12, 2009 | January 12, 2014 | 1.62 |
| 250,000 | 62,500 | 0.10 | March 1, 2012 | March 1, 2017 | 4.75 |
| 1,757,500 | 1,570,000 | 0.25 | | | 1.62 |

(e) **Share Purchase Warrants**

As at, May 31, 2012, the following warrants to purchase shares are outstanding:

| Exercise Price Per Share | Expiry Date | Balance May 31, 2011 | Granted | Expired | Balance May 31, 2012 |
|--------------------------------|--------------------|----------------------------|-----------|-------------|----------------------------|
| \$0.20 | March 5, 2012 | 575,000 | - | (575,000) | - |
| \$0.10 | July 19, 2011 | 1,000,000 | - | (1,000,000) | - |
| \$0.10 | September 19, 2013 | - | 4,250,000 | - | 4,250,000 |
| \$0.10 | October 25, 2013 | - | 2,940,294 | - | 2,940,294 |
| \$0.10 | May 25, 2014 | - | 1,500,000 | - | 1,500,000 |
| | | 1,575,000 | 8,690,294 | (1,575,000) | 8,690,294 |

(f) **Reserves**

Stock Option Reserve

The stock option reserve records items recognized as stock-based compensation expense until such time that the stock options are exercised, at which time the corresponding amount will be transferred to share capital.

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Warrant Reserve

The warrant reserve records the proceeds allocated to warrants on the issuance of units in private placements until such time that the warrants are exercised, at which time the corresponding amount will be transferred to share capital.

Investment Revaluation Reserve

The investment revaluation reserve records unrealized gains and losses arising on available for sale financial assets, except for impairment losses and foreign exchange gains and losses on monetary items.

10. Related Party Transactions

- (a) Related party transactions not elsewhere separately disclosed in these financial statements for the years ended May 31, 2012 and 2011 are:

| | 2012 | 2011 |
|---|------------------|------------------|
| Management fees paid to a company controlled by a director of the Company | \$ 61,250 | \$ 50,000 |
| Rent paid to a company with common management | 5,424 | 4,602 |
| Consulting fee paid to a company controlled by a director of the company | - | 480 |
| | <u>\$ 66,674</u> | <u>\$ 55,082</u> |

- (b) Trade payables and accrued liabilities includes \$1,380 (May 31, 2011 - \$31,124, June 1, 2010 - \$24,385) payable to companies controlled by a director of the Company or to an officer of the Company. These amounts are unsecured, non-interest bearing and have no fixed terms of repayment.
- (c) During the year ended May 31, 2012, the Company issued 1,000,000 units comprising of 1,000,000 common shares at \$0.05 per share and warrants entitling the purchase of 1,000,000 common shares at a per share price of \$0.10 until September 19, 2013 to a director of the Company in connection with a private placement.
- (d) The loan of \$10,000 payable at June 1, 2010 was payable to a private company controlled by a director the Company and was unsecured, non-interest bearing and had no fixed terms of repayment. The loan was repaid during the year-ended May 31, 2011.
- (e) Compensation to key management during the years ended May 31, 2012 and 2011 are:

| | 2012 | 2011 |
|---|------------------|------------------|
| Short-term employee benefits | \$ 18,499 | \$ - |
| Management fees paid to a company controlled by a director of the Company | 61,250 | 50,000 |
| Stock-based compensation | 6,172 | - |
| | <u>\$ 85,921</u> | <u>\$ 50,000</u> |

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11. Commitments

- (a) The Company has a management services agreement with a company controlled by a director of the Company requiring payments of \$5,000 per month. The agreement is in effect until February 28, 2014 unless terminated earlier in accordance with the provisions of the agreement.
- (b) The Company shares its premise with other companies controlled by a director of the Company, and is allocated its proportion of the annual rent.

12. Segmented Information

The Company's worldwide operations are all conducted in one industry segment, the exploration and development of exploration and evaluation assets.

The Company's equipment is located in Canada, and the Company's exploration and evaluation assets are located in Kenya and Tanzania.

13. Income Taxes

The provision for income taxes differs from the amount that would have resulted in applying the combined Canadian federal and provincial tax rates for the years ended May 31, 2012 and 2011 as follows:

| | 2012 | 2011 |
|---|--------------|----------------|
| Net loss before income taxes | \$ (342,623) | \$ (2,044,487) |
| Statutory income tax rates | 26.1% | |
| Expected income tax recovery | (89,425) | (565,710) |
| Non-deductible expenses and other | 164 | 12,958 |
| Write-down of exploration and evaluation assets | - | 200,637 |
| Effect of foreign tax rates and tax rate changes | (90) | 41,729 |
| Effect of deductible temporary differences not recognized | 89,351 | 310,386 |
| Income tax recovery | \$ - | \$ - |

The significant components of the Company's deferred tax assets are as follows:

| | May 31, 2012 | May 31, 2011 | June 1, 2010 |
|------------------------------------|-------------------------|-------------------------|-------------------------|
| Deferred income tax assets: | | | |
| Equipment | \$ 29 | \$ 37 | \$ 46 |
| Exploration and evaluation assets | 427,218 | 381,166 | 129,790 |
| Non-capital loss carry forwards | 909,343 | 858,781 | 780,051 |
| Share-issue costs | 7,272 | 14,527 | 34,237 |
| | 1,343,862 | 1,254,511 | 944,124 |
| Deferred tax assets not recognized | (1,343,862) | (1,254,511) | (944,124) |
| Net deferred tax asset | \$ - | \$ - | \$ - |

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The Company has Canadian non-capital losses of \$1,426,550 available to reduce future taxable income. The losses expire as follows:

| | | |
|------|----|------------------|
| 2015 | \$ | 46,606 |
| 2026 | | 61,087 |
| 2027 | | 170,664 |
| 2028 | | 148,223 |
| 2029 | | 301,527 |
| 2030 | | 284,640 |
| 2031 | | 189,826 |
| 2032 | | 223,977 |
| | \$ | <u>1,426,550</u> |

The Company has Canadian cumulative foreign resource expenditures of \$1,557,289 available to reduce future taxable income. These expenses have no expiration date.

14. Restatement

The Company identified certain expenses that relate to the year ended May 31, 2011 that had not been recorded. The following provides details of the restatement:

Consolidated Statement of Financial Position as at May 31, 2011:

| | Canadian GAAP as Previously Reported | Increase (Decrease) | Canadian GAAP as Restated |
|--|--|------------------------|------------------------------|
| Trade payables and accrued liabilities | \$ 100,854 | \$ 20,000 | \$ 120,854 |
| Total liabilities | 235,079 | 20,000 | 255,079 |
| Deficit | (4,521,001) | (20,000) | (4,541,001) |
| Equity | 446,762 | (20,000) | 426,762 |

Statement of comprehensive loss for the year ended May 31, 2011:

| | Canadian GAAP as Previously Reported | Increase (Decrease) | Canadian GAAP as Restated |
|------------------------------------|--|------------------------|------------------------------|
| Corporate development expense | \$ - | \$ 9,000 | \$ 9,000 |
| Management fees | 60,000 | (3,000) | 57,000 |
| Rent and telephone expense | 6,170 | 4,000 | 10,170 |
| Professional fees | 33,557 | 10,000 | 43,557 |
| Net loss | (2,045,210) | (20,000) | (2,065,210) |
| Comprehensive loss | (2,050,210) | (20,000) | (2,070,210) |
| Loss per share – basic and diluted | (0.09) | - | (0.09) |

The restatement had no impact on the classification of cash flows as previously reported.

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15. Transition to IFRS

As result of the Accounting Standards Board of Canada's decision to adopt IFRS for publicly accountable entities for financial reporting periods beginning on or after June 1, 2011, the Company has adopted IFRS in these financial statements, making them the first annual financial statements of the Company under IFRS. The Company previously applied the available standards under Canadian GAAP that were issued by the Accounting Standards Board of Canada.

As required by IFRS 1 "First-time Adoption of International Financial Reporting Standards", June 1, 2010 has been considered to be the date of transition to IFRS by the Company. Therefore, the comparative figures that were previously reported under previous Canadian GAAP have been restated in accordance with IFRS.

Exemptions applied

The Company has applied the following optional transition exemptions to full retrospective application of IFRS:

- IFRS 3 "Business Combinations" has not been applied to acquisitions of subsidiaries or of interests in associates and joint ventures that occurred before January 1, 2010.
- IFRS 2 "Share-based Payment" has not been applied to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the date of transition to IFRS. The Company has elected not to apply IFRS 2 to awards that vested prior to June 1, 2010, which have been accounted for in accordance with Canadian GAAP.

Reconciliation of Canadian GAAP to IFRS

The following provides reconciliations of the equity and the comprehensive loss from Canadian GAAP to IFRS for the respective periods. The changes in accounting policies resulting from the Company's adoption of IFRS had no significant impact on financial statements for these comparative periods. The adoption of IFRS did not have a material impact on the consolidated statements of cash flows.

Equity and certain other balances as at June 1, 2010 were impacted as follows:

| | Canadian GAAP | IFRS Adjustment | IFRS |
|-----------------------------------|----------------------|------------------------|--------------|
| Exploration and evaluation assets | \$ 2,730,561 | \$ (368,000) | \$ 2,362,561 |
| Deferred income tax liability | 334,302 | (334,302) | - |
| Deficit | (2,475,791) | (33,698) | (2,509,489) |
| Total equity | 2,381,999 | (33,698) | 2,348,301 |

Equity and certain other balances as at May 31, 2011 were impacted as follows:

| | Canadian GAAP as Restated (Note 14) | IFRS Adjustment | IFRS |
|-----------------------------------|--|------------------------|-------------|
| Exploration and evaluation assets | \$ 654,723 | \$ (147,200) | \$ 507,523 |
| Deferred income tax liability | 134,225 | (134,225) | - |
| Deficit | (4,541,001) | (12,975) | (4,553,976) |
| Total equity | 426,762 | (12,975) | 413,787 |

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The Canadian GAAP comprehensive loss and certain expense items for the year ended May 31, 2011 were impacted as follows:

| | Canadian GAAP as Restated (Note 14) | IFRS Adjustment | IFRS |
|---|--|------------------------|-------------|
| Foreign exchange loss (gain) | \$ (34,294) | \$ 34,650 | \$ 356 |
| Impairment of exploration and evaluation assets | 2,097,570 | (220,800) | 1,876,770 |
| Deferred tax recovery | 165,427 | (165,427) | - |
| Comprehensive loss | (2,070,210) | 20,723 | (2,049,487) |

The transition to IFRS had no impact on the classification of cash flows as reported under Canadian GAAP.

Explanation of IFRS Adjustment

The Company has previously purchased assets where the carrying value of the asset differs from the tax value of the asset on initial recognition. Under Canadian GAAP, a deferred tax liability is recognized for the resulting temporary difference, with a corresponding increase to the value of the asset recorded. IAS 12 "Income Taxes" does not permit the recognition of a deferred income tax asset or liability resulting from differences between the carrying value and tax value of an asset or liability on initial recognition, unless acquired as part of a business combination. The effect of this IFRS difference was adjusted retrospectively.

16. Subsequent Events

- a) On June 13, 2012, the Company announced that it has closed the second tranche of a non-brokered private placement, this second tranche consisting of 1,000,000 units (the "Units") at a per Unit price of \$0.05 for gross proceeds of \$50,000. Each Unit is comprised of one common share of the Company and one-half of one non-transferable share purchase warrant. Each whole warrant entitles the holder to purchase an additional common share at a price of \$0.10 per share until June 13, 2014, subject to accelerated expiry in certain circumstances
- b) On July 30, 2012, the Company received payment of US\$100,000 in accordance with the option and joint venture agreement with Aviva for the Kakamega Properties (Note 7).
- c) On August 15, 2012, the Company granted 2,390,000 stock options to its directors, key employees and consultants. The options have an exercise price of \$0.10 per share and expire on August 15, 2017.